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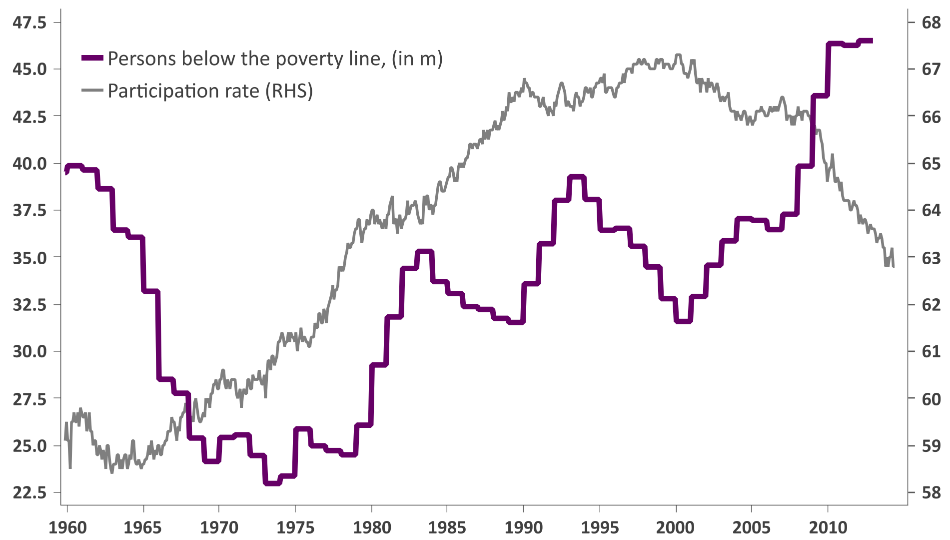
GLOBAL MACRO

Cultural Revolution afoot at the IMF?

Made at the same time as the downwards revision of its U.S. growth forecast for 2014, the IMF's recommendation that U.S. authorities increase the minimum wage flew well under the market's radar but is, by all measures, very intriguing. It is hardly standard operating procedure for the New York-based organization to suggest that a wage increase be used to increase the economic outlook of a country. Seven years after the start of the economic crisis, does this recommendation point to an acknowledgment that ongoing policies have failed and need to be replaced? Seemingly, this is the message that is being sent, judging by the positions taken and papers published in recent months. The IMF's recommendation would then worth more attention than it has been given up until now.

Poverty and Participation Rate in US



Sources: RichesFlores Research, Macrobond

Raising the minimum wage to eradicate higher poverty and solidify the U.S. economic recovery

Such a change, whose proponents include President Obama, would have several potentially beneficial effects for the American economy, as cited by the IMF: it could halt rising poverty, which is a source of social exclusion and erodes the economy's potential to grow and is a burden to the federal and local governments and it would also contribute to reducing the indebtedness of households, which is still at very high levels and is weighing on the recovery, particularly when it comes to the real estate sector.

What makes the recommendation especially interesting is the ripple effect the direction of American policy could have on the international scene. If the U.S. takes action, it could pave the way for a host of other countries to reconsider their thinking on such a taboo topic. It is hard to see how the US social reality could be considered so different from the situation elsewhere (in Europe especially) as to require an entirely different policy from what is generally recommended on this side of the Atlantic, where Eurostat estimated there were 77 million individuals teetering on the poverty line and at risk of social exclusion in the euro area in 2012. It is also difficult to see how a more aggressive "reflation" policy, deemed necessary in the U.S., would not also apply to the euro area, which is struggling to escape the clutches of the deflation threat. A move to inject inflation in the economy would not make much sense on a global scale if it were to come from the U.S. alone and would, most likely, weaken the dollar and thus increase deflationary pressure in the euro area.

One-off remark or a tide change?

This raises the question of what kind of reading we should make of the message sent by the IMF to the U.S. government. The international organization has changed its mind several times in recent years on the best way to deal with the crisis. The most spectacular volte face came in winter 2012, when it admitted its assumptions used in calculating the fiscal multiplier were inaccurate. This admission highlighted the economic ineffectiveness of austerity policies that had been recommended since 2010, thus sounding the de facto end of such practices.

Since then, a raft of papers on the social cost of the crisis has been published by the IMF, warning of the dangers of rising inequality and poverty, directing blame at overly aggressive cuts in public spending. An analysis on the economic efficiency of various taxes, which was recently published, attracted our attention. In the paper entitled *"Tax buoyancy in OECD countries"*, the authors point to the high "return" on business taxes compared to other taxes, suggesting they could be the best way to replenish budgets during periods of economic growth…

Time will tell if it constitutes a first step in a more radical change in IMF strategy, with the aim of rebalancing how added value is shared, a subject that is increasingly on the minds of a number of specialists as the only real way out of the crisis in the developed world.

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